

AR39

*Established 1853*

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ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 11:00 a.m.,
April 30, 1975 in Toronto in the Auditorium at
9 Sunlight Park Road.

Financial Highlights

	Year Ended January 31		%
	1975	1974	
Sales			
Retail Division			
Stores	\$ 21,915,118	\$19,213,065	+ 14.1
Licensed Woolco Departments	56,930,373	46,505,292	+ 22.4
Total Apparel	\$ 78,845,491	\$65,718,357	+ 20.0
Footwear (six months)	15,285,000	—	—
	<u>94,130,491</u>	<u>65,718,357</u>	<u>+ 43.2</u>
Manufacturing			
Toby	5,755,991	5,545,270	+ 3.8
McGregor (eleven months)	4,702,375	—	—
	<u>10,458,366</u>	<u>5,545,270</u>	<u>+ 88.6</u>
	<u>104,588,857</u>	<u>71,263,627</u>	<u>+ 46.8</u>
Income from operations before depreciation, interest and other items	13,421,554	9,481,459	+ 41.6
Depreciation and interest	2,490,606	1,014,113	+145.6
Other items	429,438	87,473	+390.9
Net income	5,180,239	4,033,774	+ 28.4
Percentage of net income to sales	4.95	5.66	
Earnings per common share			
Basic	\$2.74	\$2.14	+ 28.0
Fully diluted	\$2.67	—	—
Dividends paid per share	\$.51	\$.42	+ 21.4
Working capital	\$ 14,710,903	\$ 7,932,722	
Current ratio	1.9:1	1.9:1	
Earnings as a percentage of shareholders' equity	27.5	27.7	
Shareholders' equity	\$ 18,813,131	\$14,562,525	+ 29.2

Board of Directors and Officers

CHARLES A. CADIEUX, c.m., K.G.C.H.S., <i>Retired Retail Executive</i>	Toronto
*G. RICHARD CHATER, <i>Chairman and Chief Executive Officer, Grafton-Fraser Limited</i>	Campbellville
BRIG.-GEN. W. PRESTON GILBRIDE, c.b.e., d.s.o., e.d., l.l.d. <i>Chairman, the Company</i>	Toronto
WILLIAM A. HEASLIP, <i>President, Grafton Realty Company, Limited</i>	Milton
WILLIAM F. JAMES, Ph.D., <i>Partner, James & Buffam</i>	Toronto
*JAMES W. McCUTCHEON, q.c., <i>Partner, Shibley, Righton & McCutcheon</i>	Toronto
STEWART PHILP, <i>Retired President of a Subsidiary</i>	Dundas
*JOHN B. RIDLEY, <i>Retired Investment Dealer</i>	Toronto
SAM FOSTER ROSS, q.c., <i>Partner, Ross & McBride</i>	Dundas
*GEORGE A. REYNOLDS, c.a., <i>Senior Vice President and Secretary, Grafton-Fraser Limited</i>	Thornhill
T. EDWARD TOPPING, <i>President, Grafton-Fraser Limited</i>	Stouffville
*DAVID B. WELDON, <i>President and Chief Executive Officer Midland Doherty Limited</i>	Toronto
DOUGLAS C. WOOLLEY, q.c., <i>Partner, Woolley, Hames, Dale & Dingwall</i>	Toronto
THOMAS R. YOUNG, <i>President, Toby Industries Limited</i>	Toronto
*Audit Committee	

Officers

W. P. GILBRIDE, *Chairman*
G. R. CHATER, *President*
W. A. HEASLIP, *Executive Vice President*
G. A. REYNOLDS, c.a., *Vice President Finance, Secretary and Treasurer*

Transfer Agent and Registrar

GUARANTY TRUST COMPANY OF CANADA

Head Office

9 SUNLIGHT PARK ROAD, TORONTO M4M 3G1

Auditors

THORNE RIDDELL & CO.

Stock Exchange Listings

TORONTO STOCK EXCHANGE

MONTREAL STOCK EXCHANGE

The company enjoyed a good year with increased internally generated sales as well as acquisitions. Earnings (undiluted) increased from \$2.14 to \$2.74 per share. Grafton-Fraser was the substantial contributor, with both the Woolco and Jack Fraser divisions showing significant improvement. Both divisions enjoyed rewarding increases in overall productivity as measured by increased sales per square foot, contrary to the opinion of those analysts who thought Ontario was badly overstored. Inflation was not a material contributor to this performance as the removal of the hidden Federal Government Sales Tax, just prior to the back to school sales period, more than offset this year's cost increases. Inventory turnover also improved, of particular importance since money was so expensive. This was due to the more orderly availability of merchandise and an outstanding management effort.

Toby Industries, our home furnishings division, completed the acquisition of James B. McGregor at book value, an operation that it has sponsored for some years, and which specializes in merchandising fashion products for the bathroom. Its own sales area was restricted, due to the reluctance of the large retailers to buy during the last half of the year as they endeavoured to reduce their inventories overall, particularly those in the home furnishings area.

We have purchased almost all of the outstanding common shares of Maher Shoes Limited, one of the few significant Canadian owned shoe chains. Their results for the last half were disappointing, but we feel they are well managed and when our systems become integrated we will see worthwhile benefits in the future.

The Forsyth Trading Company Limited, a joint venture with two other investing groups, turned in an excellent performance on which we are reporting for the first time.

Many difficulties were faced in the year just passed. The Federal Government saw fit to impose a one year surtax on service industries, retroactive to May 1st, 1974 which reduced our reported earnings per share by approximately 15¢. The removal of the Federal Sales Tax caused a great deal of turbulence in the market place as many companies reacted by marking down existing inventories. The unprecedented costs of borrowing were much greater than could have been anticipated, since almost all of our borrowing is related to prime rates.

We were able to increase our dividends to an annual rate of 60¢ from 48¢, our fifth successive such annual increase, and believe we are more conservative than the general practice of our industry as to payout ratios. Our working capital ratio is close to 2:1.

The outlook for the coming year is for a much more competitive environment for all divisions. The home furnishing industry, which we had believed would be one of great growth during the decade, will be severely tested in this particular year. Our footwear group will also be challenged while the industry goes through something of a shakeout. Our apparel group has so far been able to outperform the industry in difficult times, and with the continued developing strengths of the skills of our people, we look forward to a satisfactory year.

The confidence, achievement and dedication to Grafton Group's progress shown by its management, employees, customers, suppliers, developers and associates during the year is sincerely appreciated.

Submitted on behalf of the Board

G. R. Chater
President
March 12, 1975

GRAFTON-FRASER LIMITED

G. R. CHATER, *Chairman and Chief Executive Officer*
T. E. TOPPING, *President*
J. B. COUTTS, *Senior Vice President*
A. L. LUCAS, *Senior Vice President*
G. A. REYNOLDS, C.A., *Senior Vice President and Secretary*
E. C. FREDERICK, *Vice President*
J. R. WALKER, *Vice President*
S. A. LINDSAY, C.A., *Vice President and Treasurer*
W. J. SMITH, *Vice President*
R. M. HANNAH, C.A., *Controller*
H. SANDERS, *Administrator Public Relations and Personnel*

MAHER SHOES LIMITED

T. P. WILSON, *President*
J. W. REID, *President, Copp the Shoe Man Limited*
J. R. GILLIES, C.A., *Vice President and Treasurer*
G. S. NEILSON, *Vice President*
L. D. PHILLIPS, *Vice President*
R. C. WILSON, *Vice President*
G. F. TRAVELLE, *Secretary*
L. GINSBERG, *Comptroller*

TOBY INDUSTRIES LIMITED

T. R. YOUNG, *President*
J. LOEB, *Vice President, J. B. McGregor Division*
S. LIVINGSTON, *General Manager*
D. P. WORSNOP, *Controller*

GRAFTON REALTY COMPANY, LIMITED

W. A. HEASLIP, *President*
MRS. J. A. LAWSON, *Assistant Secretary*



Company Stores



Company Executives

Seated, left to right: E. Frederick, J. B. Coutts, D. Rossen.
Standing, left to right: D. Moore, A. Howlett, P. Bickerton.

Left to right: T. E. Topping, W. J. Smith, R. M. Hannah, S. A. Lindsay, H. Sanders.



Leased Departments

Left to right: B. A. Reynolds, F. Grasby, A. L. Lucas, R. O. Hutchinson, J. R. Walker, R. Eagleson, J. Lawrence.



Manufacturing

Left to right: J. Loeb, T. R. Young, S. Livingston.



Maher Stores

Left to right: G. S. Neilson, J. R. Gillies, J. W. Reid, G. F. Travelle, T. P. Wilson, R. C. Wilson, L. D. Phillips.

GRAFTON-FRASER LIMITED T. E. Topping, President

1974 was a year of achievement for Grafton-Fraser. Most of our goals were met which gives us continuing confidence in the future. Five new Woolco Departments and ten Jack Fraser Stores were opened, greatly expanding our coverage. Older unprofitable stores are being closed as promptly as is practicable. Other stores continue to be remodelled to renew and improve their useful life.

Senior appointments included the promotion of A. L. Lucas to Senior Vice President, Leased Departments and J. R. Walker to Vice President, Merchandising, Leased Departments. J. B. Coutts was promoted to Senior Vice President, Company Stores and E. C. Frederick to Vice President, Merchandising, Company Stores. Each of these component divisions is complemented by its own buying and supervisory staff, a development implemented in 1974 and now proving its merit. All staff services are supplied to both divisions by groups reporting to S. A. Lindsay, Accounting, W. J. Smith, Information Services and H. Sanders, Personnel and Advertising.

In 1975, we anticipate opening ten Conventional Stores and seven Woolco Departments. Boys' Wear has been removed from most Jack Fraser stores during the year and replaced by fashion items that are better volume and profit performers. As our closing inventory position was most satisfactory, we were able to introduce new fashion lines in depth early in 1975 and the sales results, to date, support the soundness of this approach.

The improvement in our merchandise mix is one of the highlights of the past year. There has been a distinct upgrading of merchandise with increasing fashion emphasis. The retail customer still best responds to value, satisfaction, competitive pricing and a warm welcome. We will continue to improve our quality, value and service during the coming years.

MAHER SHOES LIMITED T. P. Wilson, President

Like many businesses, the year ended December 31, 1974 was a difficult and trying period for Maher. A period that produced unprecedented increases both in product costs and operating expenses, particularly in bank interest which more than doubled.

The footwear industry generally experienced sluggishness in 1974, lacking consistent fashion and pricing direction, along with an unusually warm fall selling season in most of the country.

In addition to the company's planned store closing program, all the company's lower priced leased departments were closed in 1974 as they have been a profit drain for some time. The added closing costs along with severely reduced gross margins in disposing of these inventories was a significant factor in the company's unsatisfactory last half profit performance.

To further strengthen its ongoing branded strategies, the company has entered a joint venture with Savage Shoes (1970) Limited (a wholly-owned subsidiary of Interco Inc.) as of February 1st, 1975. Each company has pooled selected existing Ontario store locations, resulting in a 13 store chain known as Barcley-Lanes. We expect this exposure to one of North America's major branded shoe manufacturers will be of significant mutual benefit.

Today's economic uncertainties make any prediction of future results difficult. Despite this, the underlying strength of the businesses which now constitute our present mix is such that we await the future with confidence and optimism.

TOBY INDUSTRIES LIMITED — TOBY DIVISION T. R. Young, President

The past year was a year of expansion for the Toby Division. Plant expansion in Toronto allowed for the continuing increase in the bedspread line and improved service to all our customers. A new branch was opened in Vancouver with showrooms for both Toby and the James M. McGregor Division. A new union settlement and general inflationary increases combined with the reduced demand for our products in the last two months of the year hurt the profit performance of this division.

In 1975, we anticipate a slower growth rate than we have experienced over the last several years. The generally soft market which occurred in the last two months of 1974 has not improved and a vigorous second half will be required to obtain the growth and profitability demanded by management. The overall view therefore is of uncertainty mixed with general optimism for a return to the standard of performance that has marked the history of the Toby Division.

JAMES B. McGREGOR DIVISION J. Loeb, Vice President

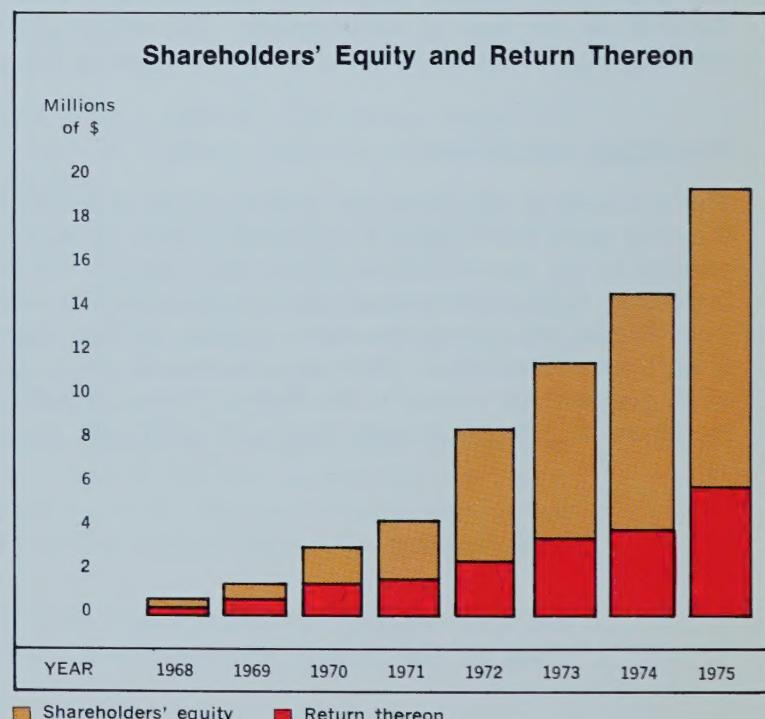
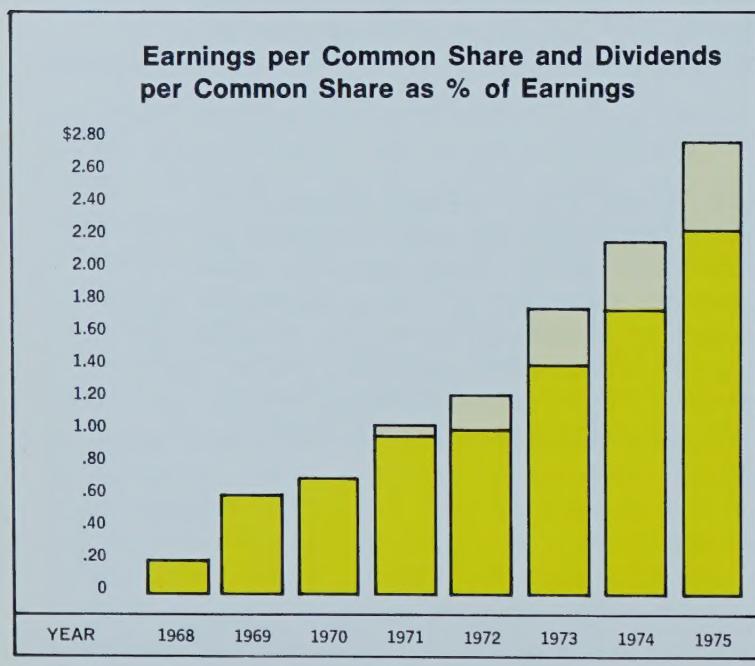
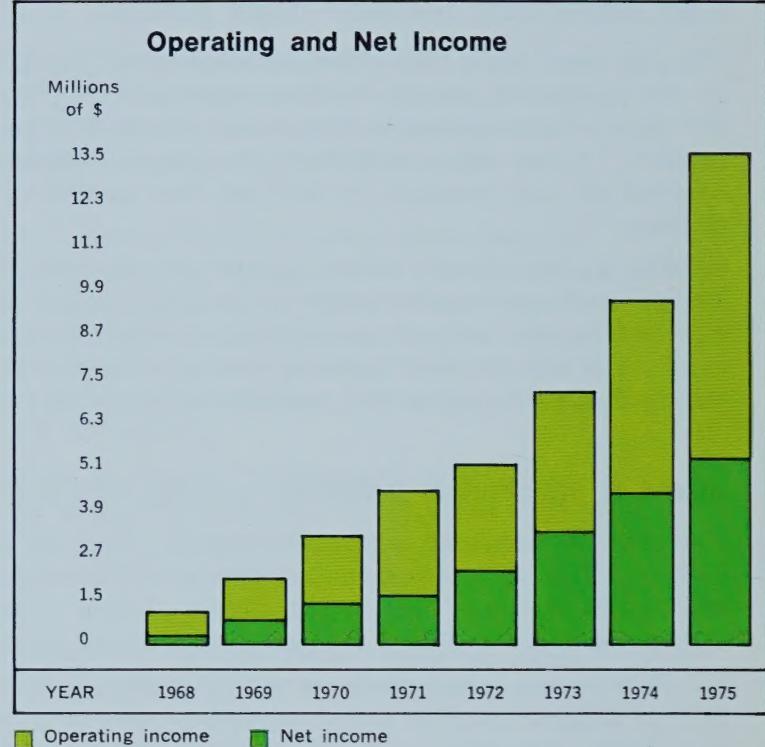
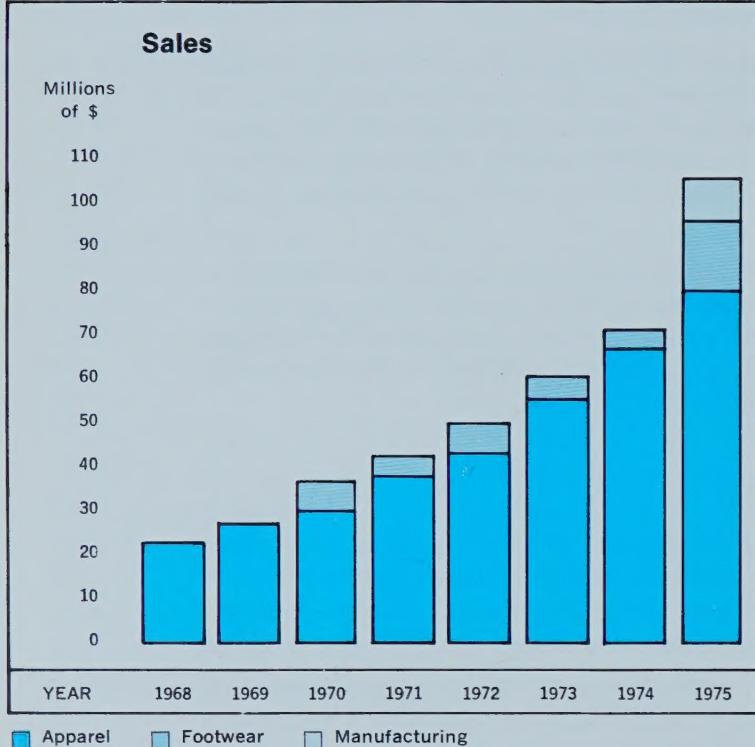
The year 1974 showed a good increase in sales as well as profits for the James B. McGregor Division. During that year we opened a new showroom in Vancouver and enlarged our showroom facilities in Montreal. We added additional lines to our Bath Fashion Group and, due to advanced styling and merchandising, the acceptance of our products by our customers has been exceptional.

For 1975 we are looking forward to increasing sales, and we have found that though there is a definite softness in other home furnishings, the bath fashion industry has not suffered a comparable slow-down. The major department stores and chains during the year 1975 will make a special effort to expand their already large bath fashion divisions in their stores, as there is an ever increasing demand for our type of merchandise. Our major effort during 1975 will be directed towards increasing our inventory turnover while maintaining the past sales growth.

FINANCIAL POSITION

The accounts of the Company include those of Maher Shoes Limited for the first time together with the long term debt issued in connection with its acquisition. This makes the year to year comparison of the figures not directly comparative. Consolidated sales during the past four years have increased 149% from \$42,004,000 to \$104,589,000 while earnings have risen 216% to \$5,180,000 from \$1,638,000 during the same period. Shareholders' equity of \$18,813,000 at the end of 1975 is up from \$4,314,000 in 1971, an increase of 336%, after giving effect to the retroactive write-off of all goodwill not related to the Maher Shoes Limited acquisition. Working capital during the year increased \$6,778,000 or 85% to \$14,711,000 with the current ratio remaining constant at 1.9:1.

Information Graphs



Consolidated Statements of Income and Retained Earnings

GRAFTON GROUP LIMITED
(Incorporated under the laws of Ontario)
and subsidiary companies

	Year Ended January 31,	
	1975	1974
INCOME		
Sales		
Retail	\$ 94,130,491	1,627,182
Manufacturing	10,458,366	2,493,270
	<u>104,588,857</u>	<u>1,620,452</u>
Cost of sales and expenses other than undernoted	91,167,303	1,593,300
Income from operations before taking into account the undernoted items	<u>13,421,554</u>	<u>3,427,152</u>
Depreciation	945,370	2,277,170
Interest on long term debt	763,889	1,793,350
Other interest	781,347	1,771,111
Amortization of excess of cost of shares over underlying book value of subsidiary at date of acquisition	71,000	1,000
Provision for decline in value of marketable securities and investments	<u>358,438</u>	<u>1,000</u>
	<u>2,920,044</u>	<u>4,033,774</u>
Deduct		
Gain on sale of fixed assets	200,000	1,101,586
Equity in earnings of corporate joint venture	<u>308,223</u>	<u>8,379,873</u>
	<u>508,223</u>	<u>8,379,873</u>
	<u>2,411,821</u>	<u>1,101,586</u>
Income before income taxes and minority shareholders' interest	11,009,733	8,379,873
Income taxes	5,762,712	4,309,800
Income before minority shareholders' interest	<u>5,247,021</u>	<u>4,070,073</u>
Preference share dividends paid to minority shareholders of subsidiary companies	66,782	66,782
Net income for the year	<u>\$ 5,180,239</u>	<u>\$ 4,033,774</u>
Earnings per share (note 9)		
Basic	\$ 2.74	\$ 2.14
Fully diluted	\$ 2.67	\$ 2.14
RETAINED EARNINGS		
Balance at beginning of year	\$ 10,978,710	\$ 7,736,477
As previously reported		
Write-off of excess of cost of shares of subsidiary companies (note 1(d))	3,609,572	3,609,572
As restated	7,369,138	4,126,905
Net income for the year	<u>5,180,239</u>	<u>4,033,774</u>
	<u>12,549,377</u>	<u>8,160,679</u>
Dividends on common shares	963,674	791,541
Balance at end of year	<u>\$ 11,585,703</u>	<u>\$ 7,369,138</u>

Consolidated Balance Sheet

GRAFTON GROUP LIMITED
(Incorporated under the laws of Ontario)
and subsidiary companies

	January 31,	
	1975	1974
ASSETS		
CURRENT ASSETS		
Cash and bank deposit receipts	\$ 3,112,315	\$ 2,280,288
Accounts receivable	4,191,717	3,070,700
Marketable securities, at the lower of cost and market	225,197	213,897
Inventories (note 3)	23,791,071	11,439,610
Deposits and prepaid expenses	237,768	167,942
	<u>31,558,068</u>	<u>17,172,437</u>
OTHER RECEIVABLES (note 4)	363,151	1,006,856
INVESTMENTS (note 5)	<u>2,083,608</u>	<u>2,009,385</u>
FIXED ASSETS, at cost		
Land	1,348,295	1,390,295
Buildings	2,722,286	2,753,507
Machinery, equipment, fixtures and leasehold improvements	<u>11,813,486</u>	<u>4,803,192</u>
	<u>15,884,067</u>	<u>8,946,994</u>
Less accumulated depreciation	5,879,627	3,147,957
	<u>10,004,440</u>	<u>5,799,037</u>
EXCESS OF COST OF SHARES OVER UNDERLYING BOOK VALUE OF SUBSIDIARY AT DATE OF ACQUISITION, less amortization (notes 1(d) and 2)		
	<u>5,573,098</u>	
	<u><u>\$49,582,365</u></u>	<u><u>\$25,987,715</u></u>

Approved by the Board
JOHN B. RIDLEY, *Director*
G. R. CHATER, *Director*

	January 31,	
	1975	1974
LIABILITIES		
CURRENT LIABILITIES		
Bank advances	\$ 4,364,000	
Accounts payable and accrued liabilities	8,278,154	\$ 5,740,715
Income and other taxes payable	3,793,108	3,392,115
Principal due within one year on long term debt	<u>411,903</u>	106,885
	<u>16,847,165</u>	9,239,715
LONG TERM DEBT (note 6)	<u>11,936,122</u>	1,627,935
DEFERRED INCOME TAXES	<u>355,000</u>	78,700
PREFERENCE SHARES HELD BY MINORITY SHAREHOLDERS in subsidiary companies (note 7)	<u>1,630,947</u>	770,645
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 8)		
Authorized 3,500,000 Common shares without par value		
Issued 1,890,582 Common shares (1974, 1,888,907 shares)	7,055,405	7,018,175
CONTRIBUTED SURPLUS (note 7)	<u>172,023</u>	172,023
RETAINED EARNINGS	<u>11,585,703</u>	7,369,138
	<u>18,813,131</u>	14,562,525
	<u>\$49,582,365</u>	\$25,987,715
Long term leases (note 10)		
Contingent liabilities (note 11)		

Consolidated Statement of Changes in Financial Position

GRAFTON GROUP LIMITED
(Incorporated under the laws of Ontario)
and subsidiary companies

	Year Ended January 31,	
	1975	1974
Working capital derived from Operations		
Net income for the year	\$ 5,180,239	\$ 4,033,774
Items not involving working capital		
Depreciation	945,370	567,110
Deferred income taxes	83,058	6,000
Provision for decline in value of investments	234,000	
Amortization of excess of cost of shares over underlying book value of subsidiary	71,000	
Gain on sale of fixed assets	(200,000)	
Equity in earnings of corporate joint venture	(308,223)	
	<hr/> 6,005,444	<hr/> 4,606,884
Repayment of note and advance receivable from an affiliated company	903,629	
Proceeds from sale of fixed assets	404,966	15,931
Proceeds from issue of common shares	37,230	228,356
Issue of 7 1/4% convertible debentures upon acquisition of subsidiary	5,180,700	
Term bank loan arranged upon acquisition of subsidiary	4,249,403	
Decrease in other receivables		5,955
	<hr/> 16,781,372	<hr/> 4,857,126
Working capital applied to		
Additions to fixed assets	1,476,227	988,418
Increase in other receivables	193,924	
Dividends on common shares	963,674	791,541
Cost of preference shares of Grafton-Fraser Limited purchased for cancellation	264,209	182,884
Reduction of non-current portion of long term debt	400,916	91,778
Acquisition of subsidiary less its working capital of \$3,233,018 (note 2(a))	6,462,006	
Acquisition of the net assets and operations of the division of an affiliated company less its working capital of \$1,585,065 (note 2(b))	242,235	
Purchase of investments		2,009,385
	<hr/> 10,003,191	<hr/> 4,064,006
Increase in working capital	6,778,181	793,120
Working capital at beginning of year	7,932,722	7,139,602
Working capital at end of year	<hr/> \$14,710,903	<hr/> \$ 7,932,722

Notes to Consolidated Financial Statements

GRAFTON GROUP LIMITED
(Incorporated under the laws of Ontario)
and subsidiary companies

YEAR ENDED JANUARY 31, 1975

1. SUMMARY OF ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies since dates of acquisition. The major operating subsidiaries are as follows:

	Fiscal Year End
Grafton-Fraser Limited	January 1, 1975
Toby Industries Limited	December 31, 1974
Grafton Realty Company, Limited	December 31, 1974
Maher Shoes Limited (note 2(a))	December 31, 1974

(b) Inventories

The inventories (note 3) are valued on the following basis:

Retail inventory — lower of cost and net realizable value less normal profit margin.

Manufacturing inventory

Raw materials — lower of cost and replacement cost.

Work in process and finished goods — lower of cost and net realizable value.

(c) Fixed Assets

Depreciation is provided as follows:

Buildings	— 2½% diminishing balance
Machinery, equipment and fixtures	— 20% diminishing balance and 10% straight-line
Leasehold improvements	— term of lease, straight-line

(d) Excess of Cost of Shares over underlying Book Value of Subsidiary at date of Acquisition

For all acquisitions made in prior years the company has on a retroactive basis written off the excess of cost of shares over underlying book values of subsidiaries at dates of acquisition to retained earnings. The excess of cost over underlying book value of Maher Shoes Limited acquired during the year is being amortized on a straight-line basis over forty years in accordance with the guideline of the Canadian Institute of Chartered Accountants which became effective April 1, 1974.

(e) Income Taxes

The company charges earnings with income taxes currently payable and also with income taxes deferred by claiming certain costs for income tax purposes in excess of related costs charged to income. The accumulated total of such income tax deferrals is reflected in the consolidated balance sheet as "Deferred income taxes".

2. ACQUISITIONS

(a) Effective July 1, 1974 the subsidiary company, Grafton-Fraser Limited, acquired substantially all of the issued and outstanding common shares of Maher Shoes Limited, a retail company. The transaction has been accounted for on the purchase method with the results of operations included in these financial statements from the date of acquisition. The acquisition equation is as follows:

Net assets acquired, at book values			
Current assets	\$10,667,780		
Fixed assets	3,637,277		
Mortgages receivable	66,000		
		\$14,371,057	
Current liabilities	7,434,762		
Long term debt	1,279,000		
Deferred income taxes	193,242		
		8,907,004	
Preference shares in Maher Shoes Limited, not acquired			
		5,464,053	
		1,413,127	
Excess of cost of shares over net assets acquired		4,050,926	
		5,644,098	
		<u>\$ 9,695,024</u>	
Consideration given at fair value			
Cash (of which \$4,249,403 was arranged by a term bank loan, note 6(b))	\$ 4,514,324		
Issue of 7½% convertible debentures maturing June 30, 1979 (note 6(a))	5,180,700		
		<u>\$ 9,695,024</u>	

Notes to Consolidated Financial Statements (continued)

(b) Effective February 1, 1974 a subsidiary company Toby Industries Limited acquired the net assets and operations of the James B. McGregor Division of an affiliated company. The results of operations are included in these financial statements from the date of acquisition. The acquisition equation is as follows:

Net assets acquired, at book values		
Current assets	\$ 2,345,741	
Fixed assets	242,235	\$ 2,587,976
Current liabilities		760,676
		<u>\$ 1,827,300</u>
Consideration given at fair value		
Cash	\$ 923,671	
Repayment of note receivable from affiliated company (note 4)	756,891	
Repayment of advance to affiliated company (note 4)	146,738	
		<u>\$ 1,827,300</u>

3. INVENTORIES

	1975	1974
Retail	<u>\$20,368,723</u>	\$10,128,989
Manufacturing		
Raw materials	1,757,325	698,432
Work in process	242,104	215,918
Finished goods	<u>1,422,919</u>	396,271
	3,422,348	<u>1,310,621</u>
	<u>\$23,791,071</u>	\$11,439,610

4. OTHER RECEIVABLES

	1975	1974
Note receivable from affiliated company, secured		
Advance to affiliated company, secured	\$ 756,891	
Mortgages receivable	146,738	
Note receivable, bearing interest at the prime banking rate, secured	<u>\$ 163,151</u>	103,227
	200,000	
	<u>\$ 363,151</u>	<u>\$ 1,006,856</u>

Under certain conditions the \$200,000 note receivable may be applied towards the purchase of a 50% equity interest in a small retail company.

5. INVESTMENTS

	1975	1974
Forsyth Trading Company Limited — one third interest (Preference shares, at cost)	\$ 1,320,374	\$ 1,012,151
(Common shares, at equity value)		
Listed marketable securities of a retail company, at cost less provision for decline in value in 1975 of \$234,000 (market value 1975, \$661,200; 1974, \$820,800)	<u>763,234</u>	997,234
	<u>\$ 2,083,608</u>	<u>\$ 2,009,385</u>

6. LONG TERM DEBT

The long term debt is comprised of the following:

(a) 7 1/4% convertible debentures, maturing June 30, 1979	\$ 5,124,550
(b) Term bank loan, bearing interest at the prime banking rate plus 1% maturing September 1, 1979	4,249,403
(c) Term bank loan, bearing interest at the prime banking rate plus 2% (not less than 8 1/2% per annum) maturing May 1, 1982	1,649,072
(d) 6 3/4% sinking fund debentures, Series A maturing April 1, 1987	<u>1,325,000</u>
	12,348,025
Less principal due within one year	411,903
	<u>\$11,936,122</u>
	1,734,820
	106,885
	<u>\$ 1,627,935</u>

(a) The 7 1/4% convertible debentures of Grafton Group Limited have been issued in individual units of \$50. The debentures are convertible at the holder's option into common shares of Grafton Group Limited at a conversion price of \$30 per common share, and cash or scrip certificates for the balance. The debentures may be redeemed by the company prior to June 30, 1979 if the weighted average trading price per common share on a stock exchange of Grafton Group exceeds \$36 for 20 trading days, at which time the company may call the debentures for redemption on thirty days notice. The debentures are secured by a first fixed and specific pledge on notes payable by Grafton-Fraser Limited to the company (\$5,180,700 at January 31, 1975). These notes are secured by the pledge of 109,200 common shares of Maher Shoes Limited.

(b) A term bank loan of Grafton-Fraser Limited amounting to \$4,249,403 is secured by the pledge of 98,055 common shares of Maher Shoes Limited and is repayable in the amount of \$249,403 on September 1, 1975 and \$1,000,000 on September 1, 1976 to 1979 inclusive.

(c) A term bank loan of Grafton Realty Company, Limited amounting to \$1,649,072 is secured by a demand debenture in the amount of \$1,950,000 on all the assets of Grafton Realty Company, Limited and is repayable in equal monthly instalments of \$25,000 (principal and interest) maturing May 1, 1982, at which point the unpaid principal balance becomes due.

(d) The debentures of Maher Shoes Limited are secured by a first floating charge on the assets of Maher Shoes Limited. The more significant of the covenants of the trust deed restrict the subsidiary company, Maher Shoes Limited, from reducing its consolidated working capital below \$1,000,000 and from paying dividends on common shares if such payments would reduce consolidated working capital below \$1,250,000. At December 31, 1974, the company had a sinking fund credit sufficient to meet \$26,000 of the \$72,000 payment due in 1975 and the payments required in 1976 and future years average approximately \$98,000 per annum to 1987, the date of maturity.

Principal repayments within the next five fiscal years on long term debt are approximately:

1976	\$ 411,903
1977	1,228,000
1978	1,244,500
1979	1,262,000
1980	6,406,650
	<hr/>
	10,553,053
due beyond 1980	1,794,972
	<hr/>
	\$12,348,025

7. PREFERENCE SHARES HELD BY MINORITY SHAREHOLDERS IN SUBSIDIARY COMPANIES

	1975	1974
Maher Shoes Limited		
60¢ Cumulative, non-redeemable preference shares without par value	\$ 1,413,127	
Grafton-Fraser Limited		
6% Cumulative preference shares par value \$20, redeemable at \$21	217,820	\$478,840
	<hr/>	<hr/>
	\$ 1,630,947	\$478,840

During 1974, Grafton-Fraser purchased for cancellation 12,846 of its outstanding preference shares at a cost of \$264,209 (1973, 9,127 shares at a cost of \$182,884). The gains and losses from these transactions have been reflected in contributed surplus. The balance of its preference shares of \$217,820 have been called for redemption as of March 15, 1975.

8. CAPITAL STOCK

	1975	1974
Common shares		
Issued		
Issued during the year under the Employee Stock Option Plan, 1,550 shares (1974, 10,572 shares) at \$21.60	\$ 33,480 3,750	\$228,356
Issued under the terms of the 7 1/4% convertible debentures, 125 shares	<hr/>	<hr/>
	\$ 37,230	\$228,356
Shares set aside for Employee Stock Option Plan		
Reserved for allotment	51,850	51,850
Options outstanding, exercisable at \$21.60 per share up to February 11, 1977	25,296	26,846
Options exercised to date	17,854	16,304
	<hr/>	<hr/>
	95,000	95,000

In addition, 172,565 common shares have been set aside for conversion privileges attached to the 7 1/4% convertible debentures.

Notes to Consolidated Financial Statements (continued)

9. EARNINGS PER SHARE

Earnings per share are based upon the weighted average number of shares outstanding during the year (1,889,745 shares in 1975 and 1,883,600 shares in 1974).

Fully diluted earnings per share illustrates the effect on earnings of the conversion of the 7 1/4% convertible debentures issued during the year.

10. LONG TERM LEASES

The aggregate amount of rentals incurred by all of the company's subsidiaries as an expense during their most recent fiscal periods in respect of all leases (including licences) was \$8,390,000.

Based upon all leases (including licences) in existence as at their fiscal period ends, the aggregate minimum annual amount that will be incurred by all the company's subsidiaries as rental or licence expense during their next five fiscal years is approximately \$5,695,000.

11. CONTINGENT LIABILITIES

With respect to the investment in shares of Forsyth Trading Company Limited (note 5), Grafton Group Limited has guaranteed 50% of Forsyth's bank loans and certain notes payable by Forsyth. Grafton Group Limited's contingent liability at December 31, 1974 amounted to \$1,900,000 and the maximum contingent liability under these guarantees may not exceed \$2,730,000.

12. PENSION PLAN

Current pension costs are charged to operations each year. At January 31, 1975 a subsidiary company, Maher Shoes Limited, had an obligation for unfunded past service pension plan costs of approximately \$536,000 based on the most recent actuarial calculation. These past service costs are being expensed over fifteen years.

13. OTHER STATUTORY INFORMATION

Remuneration of directors and senior officers (as defined by The Business Corporations Act) was \$376,000 (1974, \$317,000).

Auditors' Report

To the Shareholders of
Grafton Group Limited

We have examined the consolidated balance sheet of Grafton Group Limited and subsidiary companies as at January 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of the company and those subsidiary companies of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For Maher Shoes Limited, a subsidiary company, we have relied on the reports of the auditors who have examined their financial statements.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change set out in note 1(d), with which we concur, on a basis consistent with that of the preceding year.

Thorne Riddell & Co.

Toronto, Canada
February 24, 1975

Chartered Accountants

Statistics

	January 31							
	1975	1974	1973	1972	1971	1970	1969	1968
EARNINGS PER SHARE PER QUARTER								
1st Quarter	\$.335	\$.231	\$.161	\$.100	\$.066	\$	\$	\$
2nd Quarter	.597	.425	.347	.277	.202			
3rd Quarter	.426	.315	.268	.193	.107			
4th Quarter	1.382	1.169	.944	.650	.635			
Total	\$2.74	\$2.14	\$1.72	\$1.22	\$1.01	\$.69	\$.58	\$.18
	January 31							
	1975	1974	1973	1972	1971	1970	1969	1968
NUMBER OF BRANCHES								
Apparel Division								
Leased Woolco Departments	72	67	56	47	41	33	27	22
Company Stores	72	65	54	51	46	41	39	40
Total	144	132	110	98	87	74	66	62
Branches opened	15	24	16	13	14	10	6	5
Branches closed	3	2	4	2	1	2	2	1
Store space at end of year, omitting 000's	912	850	718	633	579	488	424	377
Sales per square foot based on year end footage	\$86.5	\$77.3	\$75.8	\$69.9	\$65.4	\$65.6	\$59.5	\$56.9
	January 31							
	1975	1974	1973	1972	1971	1970	1969	1968
NUMBER OF FOOTWEAR BRANCHES								
Maher	173	168	143	143	137	132	130	129
Copp	44	42	40	33	32	29	25	—
Total	217	210	183	176	169	161	155	129
Branches opened	24	41	20	16	19	14	29	1
Branches closed	17	14	13	9	11	8	3	1
Store space at end of year, omitting 000's	398	398	347	341	336	311	302	249
Sales per square foot based on year end footage	\$67.8	\$60.6	\$57.0	\$48.1	\$46.2	\$46.4	\$44.8	\$45.9

	January 31							
	1975	1974	1973	1972	1971	1970	1969	1968
Sales — Apparel								
— Footwear	\$ 78,846	\$ 65,718	\$ 54,415	\$ 44,280	\$ 37,895	\$ 32,038	\$ 25,219	\$ 21,461
15,285								
Total Retail								
Manufacturing	94,131	65,718	54,415	44,280	37,895	32,038	25,219	21,461
10,458		5,545	5,184	4,602	4,109	4,115		
104,589		71,263	59,599	48,882	42,004	36,153	25,219	21,461
Cost of sales and expenses								
other than undenoted	91,167	61,782	52,651	43,741	37,749	32,950	23,399	20,602
Income from operations								
before the undenoted items	13,422	9,481	6,948	5,141	4,255	3,203	1,820	859
Percent to sales	12.8	13.3	11.7	10.5	10.1	8.9	7.2	4.0
Depreciation	945	567	393	267	196	161	100	109
Interest on long term debt	764	172	112					
Other interest (net)	781	275	101	119	356	360	255	263
Amortization of Goodwill	71							
Provision for decline in value								
of securities & investments	359	87						
	2,920	1,101	606	386	552	521	355	372
Deduct								
Gain on sale of fixed assets	200							
Equity earnings	308							
	2,412							
Income before income taxes,								
extraordinary item and								
minority interests	11,010	8,380	6,342	4,755	3,703	2,682	1,465	487
Income taxes	5,763	4,310	3,067	2,445	2,009	1,461	789	253
	5,247	4,070	3,275	2,310	1,694	1,221	676	234
Gain on sale of investments								
	5,247	4,070	3,275	2,310	1,694	1,248	676	234
Minority interests								
Preference share dividends	67	36	42	51	56	54	54	47
Common shares since								
acquired by Grafton Group								
Limited								
	67	36	42	51	56	218	54	47
Net income	\$ 5,180	\$ 4,034	\$ 3,233	\$ 2,259	\$ 1,638	\$ 1,030	\$ 622	\$ 187
Earnings per common share								
Basic	\$ 2.74	\$ 2.14	\$ 1.72	\$ 1.22	\$ 1.01	\$.69	\$.58	\$.18
Fully diluted	\$ 2.67							
Dividends per common share	\$.51	\$.42	\$.325	\$.20	\$.05			
Weighted average number of								
shares outstanding	1,889,745	1,883,600	1,874,700	1,853,667	1,611,496	1,611,496	1,096,750	1,096,750

Company Apparel Stores

		Percent of Division Sales
British Columbia		
*Burnaby, Lougheed Mall	*Kamloops, Thompson Park	
*Chilliwack, Cottonwood Corner Mall	*Kelowna, Orchard Park Centre	
	*Prince George, Pine Ridge Mall	
	*Surrey, Surrey Place	9.3
	*Vancouver, Park Royal	
	*Victoria, Hillside Centre	
The Prairies		
†*Calgary, Market Mall	†*Edmonton, Londonderry Mall	
†*Calgary, South Centre	†*Thompson, City Centre Mall	
		*Winnipeg, Garden City, W. Kildonan
		6.6
Ontario		
†*Barrie, Bayfield Mall	†*London, White Oaks	
Belleville	*Metro Toronto, Agincourt Mall	
†*Belleville, Quinte Mall	†*Metro Toronto, Albion Mall	
†*Bramalea, Bramalea City Centre	*Metro Toronto, Eglinton Square	
†*Brampton, Shoppers' World	Metro Toronto, Lawrence Avenue	
*Brampton, Shoppers' World	*Metro Toronto, Northtown	
† Brantford	Metro Toronto, Pape & Danforth	
†*Brantford, Brantford Mall	†*Metro Toronto, Scarborough Town Centre	
†*Brantford, Lynden Park Mall	*Metro Toronto, Sherway Gardens	
†*Burlington, Burlington Mall	*Metro Toronto, West Side	
†*Chatham, Chatham Place	*Metro Toronto, Yorkdale Centre	
†*Chatham, Thames-Lea Centre	†*Mississauga, Mississauga Square One	
†*Dufferin, Dufferin Mall	†*Mississauga, Sheridan Mall	
† Dundas	*Newmarket, Newmarket Plaza	
*Hamilton, Greater Hamilton Centre	†*Newmarket, Upper Canada Mall	
†*Kapuskasing, Model City Mall	Oakville	
*Kitchener, Fairview Park Centre		
*London, Argyle Mall		
*London, Wellington Square		
		*Oakville, Hopedale Centre
		78.7
		†*Ottawa, Bayshore Mall
		*Oshawa, Oshawa Centre
		† Owen Sound
		† Peterborough
		†*Pickering, Sheridan Mall
		†*Richmond Hill, Hillcrest Mall
		†*St. Catharines, Niagara Pen
		*St. Catharines, Niagara Pen
		†*Sarnia, Lambton Mall
		†*Stoney Creek, Eastgate Square
		†*Thunder Bay, Thunder Bay Mall
		† Timmins
		† Trenton
		† Welland
		†*Windsor, Devonshire Mall
		†*Windsor, Tecumseh Mall
		† Woodstock
Quebec and Maritimes		
†*Dartmouth, Micmac Mall	†*Moncton, Champlain Place	
†*Halifax, Bayers Road	*Moncton, Highfield Square	
		*Montreal, Le Cavalier, La Salle
		5.4
		*Sackville, Downsview Mall
		<hr/> 100.0

* Shopping Centre Locations
† Loft Stores

Leased Woolco Apparel Departments

			Percent of Division Sales
British Columbia			
*Burnaby, Lougheed Mall	*Vancouver, Capilano Mall	*Victoria, Saanich Centre	5.1
*Prince George, Pine Ridge Mall			
The Prairies			
*Brandon, Shoppers' Mall	*Edmonton, Centennial Village	*Regina, Northgate Mall	27.6
*Calgary, McLeod Mall	*Edmonton, Londonderry Mall	*Saskatoon, Confederation Park Plaza	
*Calgary, Marlborough	*Lethbridge, College Mall	*Winnipeg, Grant Park Centre	
*Calgary, Northland Village	*Moose Jaw, Towne & Country Mall	*Winnipeg, Crossroads Centre	
*Calgary, Westbrook Mall	*Prince Albert, South Hill Mall		
*Edmonton, Capilano Mall	*Red Deer, Parkland Mall		
Ontario			
*Brantford, Brantford Plaza	*London, White Oaks Mall	*St. Catharines, Lincoln Mall	37.5
*Brockville, 1000 Island Mall	*Metro Toronto, Agincourt Mall	*Sarnia, Lambton Mall	
*Chatham, Chatham Place	*Metro Toronto, Dufferin Mall	Sault Ste. Marie	
*Cornwall, Brookdale Mall	*Metro Toronto, Honeydale Mall	*Stoney Creek, Eastgate Mall	
*Hamilton, Mt. Hamilton Centre	*Metro Toronto, North Park	*Sudbury, Nickel Range Plaza	
*Kingston, Frontenac Mall	Metro Toronto, Weston	*Whitby, Whitby Mall	
*Kitchener, Fairview Park Centre	*Mississauga, Square One Centre	*Windsor, Gateway Plaza	
*London, Argyle Mall	*Ottawa, Lincoln Fields	*Windsor, Eastown Centre	
*London, Oakridge Mall	*Owen Sound, Grey County Mall	*Woodstock, Blandford Square	
Quebec and Maritimes			
*Baie Comeau, Manicouagan Regional	*Halifax, Scotia Square	*St. Jean, Les Galeries Richelieu	29.8
*Cap de la Madeleine, Les Galeries du Cap	Levis	*Saint John, Loch Lomond	
*Chicoutimi, Place du Royaume	*Moncton, Champlain Place	*St. John's, Avalon Mall	
*Dartmouth, Penhorn Mall	*Montreal, Taschereau, Brossard	*St. Laurent, Le Bazar Centre	
*Drummondville, Les Galeries	*Montreal, Kirkland Plaza	*Sherbrooke, Rock Forest Centre	
*Giffard, Centre Ste. Anne	*Montreal, Le Cavalier, La Salle	*Sydney River, Cape Breton	
*Granby, Granby Plaza	*Montreal, Plaza Laval, Laval	*Tracy, Tracy Plaza	
	*Montreal, d'Achats, Longueuil	*Trois Rivières Centre	
	*Montreal, Langelier, St. Leonard	*Valleyfield Centre	
			<u>100.0</u>

*Shopping Centre Locations

Company Footwear Stores

British Columbia

Abbotsford
Campbell River
Chilliwack
Courtenay
Cranbrook, Cranbrook Mall
Duncan, Duncan Mall
Grand Forks
Haney
Kamloops, Thompson Park (2)
Langley
Mission
Nanaimo, Harbour Park (2)

Prairies

Calgary, Alberta, South Centre (2)
Lethbridge, Alberta, College Mall
Red Deer, Alberta, Parkland Mall

Ontario

Ajax, Harwood Place
Barrie, Dunlop Street
Barrie, Georgian Mall (3)
Belleville, Belleville Plaza
Belleville, Front Street
Belleville, Quinte Mall
Bowmanville
Brampton, Bramalea Shopping Centre (4)
Brampton, Queen Street East
Brampton, Shoppers' World (2)
Brantford, Lynden Park Mall (2)
Burlington, Burlington Mall (3)
Burlington, Robinson's Dept. Store, Burlington Mall (2)
Chatham
Collingwood
Dundas, King Street West
Dundas, University Plaza (2)
Dunnville
Guelph, Guelph Shopping Centre
Guelph, Wyndham Street
Hamilton, Fennel & Gage
Hamilton, Greater Hamilton Shopping Centre (3)
Hamilton, Mountain Plaza
Hamilton, Robinson's Dept. Store, Greater Hamilton Centre (2)
Hamilton, Robinson's Dept. Store, James Street (2)
Hanmer, Hanmer Centre
Huntsville
Kapuskasing, Model City Hall
Kingston, Bath Road
Kingston, Princess Street
Kirkland Lake
Kitchener, Goudies Dept. Store
London, Argyle Mall
London, Hudson's Dept. Store

Quebec and Maritimes

Fredericton, N.B., Fredericton Mall
Bedford, N.S., Sunnyside Shopping Centre
Dartmouth, N.S., Micmac Mall (2)
Dartmouth, N.S., Penhorn Mall
Halifax, N.S., Bayers Road

Nanaimo, Northbrook Mall
Nanaimo, Downtown
Port Alberni
Prince George, Pine Centre (2)
Prince George, Downtown
Quesnel
Smithers
Surrey, Surrey Place (2)
Terrace, Terrace Centre
Vancouver, Brentwood Mall
Vancouver, Champlain Mall

Brandon Shoppers' Mall, Manitoba

London, White Oaks Mall (2)
Metro Toronto, Agincourt Mall (2)
Metro Toronto, Albion Mall (2)
Metro Toronto, Cloverdale Mall
Metro Toronto, College Street
Metro Toronto, Commerce Court
Metro Toronto, Danforth & Woodbine
Metro Toronto, Dufferin Mall (3)
Metro Toronto, Eglinton Square (2)
Metro Toronto, Honeydale Mall
Metro Toronto, Keele & Wilson
Metro Toronto, Kipling Heights
Metro Toronto, Lakeshore Blvd. West
Metro Toronto, North Finch Shopping Centre
Metro Toronto, Northtown Shopping Centre
Metro Toronto, Parkway Plaza
Metro Toronto, Parliament & Gerrard
Metro Toronto, Queen & Bathurst
Metro Toronto, Queen & Broadview
Metro Toronto, Sherway Gardens (2)
Metro Toronto, Danforth
Shoppers' World (2)
Metro Toronto, Scarborough Town Centre (3)
Metro Toronto, St. Clair Ave. West
Metro Toronto, Toronto Dominion Centre
Metro Toronto, Towne & Country Square (2)
Metro Toronto, White Shield Plaza
Metro Toronto, Wilson Avenue, Downsview
Metro Toronto, Yonge-Eglinton Centre
Metro Toronto, Yorkdale Centre (2)
Mississauga, Applewood Village
Mississauga, Square One (4)

Halifax, N.S., Scotia Square
New Glasgow, N.S., Aberdeen Mall
Port Hawkesbury,
Cape Breton Island, N.S.
Sydney, N.S., Sydney Centre
Truro, N.S., Fundy Trail Mall

Vancouver, Fraser Street
Vancouver, Joyce Road
Vancouver, Kennedy Heights
Vancouver, Lougheed Mall
Vancouver, Park Royal Centre
Vancouver, Richmond Mall
Vancouver, Royal Centre
Vancouver, 41st Street
Victoria, Hillside Mall
White Rock
Williams Lake

Winnipeg Garden City Shopping Centre, Manitoba
Saskatoon, Sask., Market Mall

Newmarket, Newmarket Plaza
Newmarket, Upper Canada Mall (3)
Niagara Falls, Lundy's Lane
Oakville, Oak-Queen Plaza
Orngeville
Orillia
Oshawa, Oshawa Shopping Centre (2)
Ottawa, Bayshore Mall (3)
Ottawa, St. Laurent Boulevard
Owen Sound
Pembroke
Perth
Peterborough, Brookdale Plaza
Pickering, Sheridan Mall (2)
Picton
Renfrew
Richmond Hill, Hillcrest Mall (3)
Richmond Hill, Yonge Street
Sarnia, Lambton Mall
Smiths Falls
St. Catharines, Niagara Pen Centre
Stoney Creek, Centennial Parkway
Stoney Creek, Eastgate Square (2)
Stoney Creek, Robinson's Dept. Store, Eastgate Square (2)
Stoney Creek, Sky-Way Plaza
Stratford
Sudbury, Durham Street (2)
Sudbury, New Sudbury Shopping Centre (3)
Sudbury, Notre Dame Street
Tillsonburg
Trenton
Wallaceburg
Welland
Windsor, Devonshire Mall (4)
Windsor, Ouellette Avenue (2)
Woodstock

Hull, Quebec, Les Galeries de Hull (2)
Montreal, Quebec, Le Cavalier, LaSalle
Trois Rivières, Quebec, Blvd. Des Forges (3)

Percent of
Division
Sales

19.5

2.4

69.8

100.0

() Indicate Multiple Store Locations



JACK FRASER





INTERIM REPORT

for the
SIX MONTHS ENDED JULY 31, 1975

HIGHLIGHTS

FIRST HALF RESULTS

Sales \$55,836M vs \$36,984M up 51.0%
Earnings \$2,294M vs \$1,764M up 30.0%
Earnings per Share Basic \$1.213 vs \$.932 up 30.1%
Earnings per Share Fully Diluted \$1.157 vs \$.932 up 24.1%

SECOND QUARTER RESULTS

Sales \$32,457M vs \$21,800M up 48.9%
Earnings \$1,576M vs \$1,131M up 39.3%
Earnings per Share Basic \$.833 vs \$.597 up 39.5%
Earnings per Share Fully Diluted \$.786 vs \$.597 up 31.7%

(Unaudited)

TO OUR SHAREHOLDERS:

Second quarter earnings results for Grafton Group Limited were satisfactory. We have entered the critical autumn selling season with lower relative levels of inventory and with good expectations to realize on our opportunities in all divisions.

GRAFTON-FRASER — *Apparel Retailing*

Sales in both Jack Fraser and Woolco increased satisfactorily with approximately half the increase arising from greater productivity in same condition stores and half from new stores. Early warm summer weather prevailed across the country from mid-May, enabling us to have early sellouts and to reorder production from suppliers to maintain an orderly assortment of fast selling merchandise into July.

MAHER — *Footwear Retailing*

While sales, and consequently earnings, have been moderately under plan, a major activity has been directed towards the closing of a number of losing stores and losses realized on the final disposition of the related inventory. Inventories have been reduced by approximately \$3,000,000 at retail from this period a year ago. The fall season is anticipated with enthusiasm, and the prospects are for improved earnings over the last half of the year.

TOBY — *Home Furnishings Distribution*

Demand from the major retailers has been particularly soft, and a strong successful effort has been made to improve production and overhead costs, including financial carrying charges. Our inventory has been reduced very substantially from the year end so that we are in a favourable position to exploit the expected turnaround in home furnishings when housing starts eventually improve. Profits for the first half increased marginally.

FORSYTH TRADING

An excellent period was experienced and is expected to continue into the fall season.

OUTLOOK

We look forward to the balance of the year with cautious optimism.

Toronto, August 11, 1975
G. R. Chater, President

GRAFTON GROUP LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

	Second Quarter			Six Month Period Ended July 31, 1975		
	Omitting 000's		% Change	Omitting 000's		% Change
	1975	1974		1975	1974	
Sales						
Retail Division						
Apparel	\$22,452	\$19,063	+17.8	\$38,180	\$32,083	+19.0
Footwear	7,155	—		12,588	—	
	29,607	19,063	+55.3	50,768	32,083	+58.2
Manufacturing Division	2,850	2,737	+4.1	5,068	4,901	+3.4
Total Sales	32,457	21,800	+48.9	55,836	36,984	+51.0
Income from operations before taking into account the undernoted items	3,670	2,377	+54.4	5,970	3,956	+50.9
Deduct						
Depreciation	(317)	(102)	+210.8	(629)	(302)	+108.3
Interest and bank charges (net)	(558)	(211)	+164.5	(971)	(314)	+209.2
Amortization of excess of cost of shares over underlying book value of subsidiary at date of acquisition	(35)	—		(71)	—	
Provision for decline in value of investments	—	(200)		—	(200)	
Add						
Gain on sale of fixed assets	—	200		—	200	
Equity in earnings of corporate joint venture	252	104		252	104	
	(658)	(209)	+214.8	(1,419)	(512)	+177.1
Income before income taxes and minority shareholders' interest	3,012	2,168	+38.9	4,551	3,444	+32.1
Income taxes	1,412	1,031	+37.0	2,206	1,668	+32.3
Income before minority shareholders' interest	1,600	1,137	+40.7	2,345	1,776	+32.0
Preference share dividends paid to minority shareholders of subsidiary companies	24	6	+300.0	51	12	+316.7
Net income for period	\$ 1,576	\$ 1,131	+39.3	\$ 2,294	\$ 1,764	+30.0
Earnings per share						
Basic	\$.833	\$.597	+39.5	\$ 1.213	\$.932	+30.1
Fully diluted	\$.786	\$.597	+31.7	\$ 1.157	\$.932	+24.1

(Unaudited)

GRAFTON GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

SIX MONTH PERIOD ENDED JULY 31, 1975

(With Comparative Figures for 1974)

	<i>Omitting 000's</i>	
	<u>1975</u>	<u>1974</u>
Working capital derived from		
Operations		
Net income for period	\$ 2,294	\$ 1,764
Items not involving working capital		
Depreciation	629	302
Provision for decline in value of investments		200
Amortization of excess of cost of shares over underlying book value of subsidiary	71	
Gain on sale of fixed assets		(200)
Equity income in corporate joint venture	(252)	(104)
	<u>2,742</u>	<u>1,962</u>
Proceeds from issue of common shares	18	15
Repayment of note receivable	204	757
Proceeds from sale of fixed assets		419
Working capital acquired on purchase of Maher Shoes Limited and McGregor Division		2,758
Long term debt issued re purchase of subsidiary		9,279
	<u>\$ 2,964</u>	<u>\$15,190</u>
Working capital applied to		
Additions to fixed assets	\$ 561	\$ 611
Increase in investments	235	
Dividends on common shares	567	453
Cost of preference shares purchased for cancellation	216	170
Reduction of long-term debt	61	48
Purchase of shares of subsidiary		9,516
	<u>\$ 1,640</u>	<u>\$10,798</u>
Increase in working capital	1,324	4,392
Working capital at beginning of period	<u>14,711</u>	<u>7,933</u>
Working capital at end of period	<u>\$16,035</u>	<u>\$12,325</u>

(Unaudited)